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UNCLAS SECTION 01 OF 03 HARARE 001000

SENSITIVE  
SIPDIS

AF/S FOR B. WALCH  
DRL FOR N. WILETT  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS  
STATE PASS TO USAID FOR E. LOKEN AND L. DOBBINS  
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN

E.O. 12958: N/A  
TAGS: [PGOV](#) [PREL](#) [ASEC](#) [PHUM](#) [ZI](#)  
SUBJECT: INDUSTRY URGES GOVERNMENT TO ADOPT PRO-MARKET  
POLICIES

REF: HARARE 646

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SUMMARY  
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[¶1.](#) (U) At its recent annual congress held in Harare from October 28 to 29, 2008 and attended by econ specialist, the Confederation of Zimbabwe Industries (CZI), with a membership of around 400 companies covering all sectors of the economy, condemned the GOZ and the Reserve Bank of Zimbabwe (RBZ) for implementing poor macroeconomic policies that are inimical to business growth. Industrialists complained about the policy inconsistencies and reversals, price controls, collapsing infrastructure, and absence of property rights and rule of law. While statistics are notoriously out of date, they estimated that the manufacturing sector declined by over five percent in 2007. Members recommended the implementation of market-friendly policies consistent with those enunciated by the World Bank and the IMF. In an encouraging development, the industrial body (heretofore timid) resolved to get more involved in political and economic discourse to promote industrial production. END SUMMARY.

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Policies Blamed for Collapse of Industry  
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[¶2.](#) (U) In a paper presented by the CZI Economic Affairs Committee, Nigel Chanakira, the Chief Executive Officer of Kingdom Meikles Limited, identified lack of credit lines due to arrears, cash and foreign exchange shortages, low capacity utilization, and poor equipment maintenance as the major challenges facing industry. He also blamed the shortage of agricultural inputs for the collapse of most agro-processing firms. The poor state of the agricultural sector was also directly linked to the policies of both the GOZ and the RBZ.

[¶3.](#) (U) According to Joseph Kanyekanye, the Group Chief

Executive Officer of Allied Timbers Holdings--who spoke on the state of the agricultural sector and how it failed to supply the manufacturing sector with sustainable inputs--agriculture has declined because of a combination of adverse weather conditions and poor policies. He stated that the RBZ had mis-targeted its interventions and had given people what they did not require. For instance, the RBZ gave tractors to resettled farmers. Kanye Kanye suggested it would have been wiser to provide them with seed and fertilizer, rather than with machinery that would require servicing.

¶4. (U) All of the speakers criticized the RBZ for being excessively intrusive by taking on the position of a supra-ministry and dishing money out to all comers. Concerns were also raised about the unsolicited gift of eight vehicles that had been donated to CZI by RBZ governor Gideon Gono. Most delegates felt that Gono was trying to buy favors and avoid criticism from the industrial sector. Some members wanted the CZI to devise a plan of paying for the vehicles since accepting the "gift" would compromise their stance on a number of negative policies implemented by the central bank.

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Restore Infrastructure to Restore Manufacturing  
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¶5. (U) The decay of infrastructure was blamed for reduced capacity utilization. According to Nyasha Zhou, the Chief Executive Officer of PG Industries (Zimbabwe) Limited, pricing controls on electricity, water, phone, and fuel had

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led to under-investment in these areas. In fact, the rate of investment is less than the asset's usable life, which is driving down infrastructural quality.

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Implement Pro-Market Policies  
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¶6. (U) Despite the problems afflicting industry, the CZI believes recovery is possible because Zimbabwe possesses a well trained and highly-skilled labor force, fertile land, and mineral deposits, which would form the foundation for sustainable growth. They contended that these strengths could only be exploited if the country quickly achieved a political settlement and implemented sensible macroeconomic policies that address hyperinflation. In particular, the CZI proposed that the RBZ concentrate on its core business of achieving price and exchange rate stability and ensuring a sustainable balance of payments position, rather than monetary expansion to support government profligacy. The CZI recommended that the RBZ desist from involvement in quasi-fiscal activities that have been at the heart of money supply growth and inflation.

¶7. (U) Additionally the CZI proposed that the country implement policies consistent with those enunciated by the World Bank and the IMF, namely fiscal rectitude, tight monetary policies, price liberalization encompassing interest and exchange rates, and the restoration of property rights. The foreign exchange constraint was identified as the main reason for operating below capacity, and could only be addressed by liberalizing the trade and payments systems. Although industrialists stated that multilateral and bilateral financial inflows for balance of payments support could help, these were not seen as short-term solutions because the country had to first clear the over US\$1.4 billion arrears owed to the multilateral institutions. Exchange rate liberalization appeared the most appropriate policy to the CZI as it would generate incentives that would make it more profitable to export within the short term.

¶8. (U) The CZI also supported government deregulation of the agricultural sector by depoliticizing the distribution of agricultural inputs and the pricing of agricultural produce.

The CZI proposed that there should be a timely disbursement of inputs while denominating prices in US dollars to preserve value. They also proposed that resettled farmers be given security of tenure in order to enable them to use land as collateral when borrowing from banks, and that government limit its focus on communal farmers with regard to food production.

¶9. (U) While discussing industrial policies, the CZI emphasized the need to undertake an audit of which firms need support and which ones have to be allowed to fail based on a study of dynamic comparative advantages. This would call for the calculation of potential rather than current effective rates of protection in order to identify firms that have future potential comparative advantages. However, in order to avoid pervasive deindustrialization, delegates proposed that enterprises be given time to carry out structural adjustments required to improve their competitive strengths given that they have not been able to upgrade their plant and equipment over the past ten years due to the adverse economic conditions.

¶10. (U) The CZI called on government to reposition a number of parastatals that provide utilities but suffer from poor efficiency. This repositioning would encompass

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private-public partnerships with local and foreign investors working to resuscitate Zimbabwe's crumbling infrastructure. Success would be dependent on pricing services with regard to actual costs incurred, without burdening the consumer with high administrative costs.

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Political Settlement a Prerequisite  
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¶11. (U) In an encouraging sign that industry is now concerned with the slow pace of political reforms, the CZI resolved to send a high-powered delegation to President Mugabe, MDC-T leader Morgan Tsvangirai, and MDC-M leader Arthur Mutambara to advise them of the dire food situation in the country. This, they believe, would propel the leaders to quickly resolve their differences and form an all-inclusive government required to implement the recommended policies. The CZI also resolved to get more involved in designing policies that affected its members.

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Comment  
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¶12. (SBU) This year's CZI congress marked a significant departure from previous ones in that delegates openly criticized bad government policies that have negatively affected the manufacturing sector. This is an encouraging sign of possible activism by an industrial body that would be core to a Zimbabwean recovery. When combined with the Zimbabwe National Chamber of Commerce's similar recent stance (reftel), CZI's criticism of the government and proposals reflect an understanding of Zimbabwe's dire economic conditions as well as desperation by Zimbabwean business interests. We are not optimistic, however, that the GOZ will take note. END COMMENT.

MCCEE